Measures of Success

Results you can Measure

Since the beginning of fiscal 2003:

* 114% revenue growth
* 284% earnings growth
* 50% debt repaid
* 7 new products in development
* 1 new product submitted for regulatory review
* 3 new distribution agreements
* 76,000 square feet added to facilities
* Ranked #332 in the *Report on Business* Top 1000
* Named Manitoba's outstanding large business for 2003

Corporate Profile

Cangene recorded exceptional growth in 2003. Contract research and manufacturing revenue exceeded biopharmaceutical sales for the first time, net income nearly quadrupled, and the Company expanded its pipeline of biodefence and infectious disease-related products.

Cangene is a developer and supplier of high-quality hyperimmune products—antibody products that may aid in the fight against challenging infectious diseases such as smallpox, Ebola, anthrax, West Nile and hepatitis. Using experience garnered from making its life-saving drug, WinRho® SDF, Cangene specializes in manufacturing injectable products, and offers contract-manufacturing services to biopharmaceutical companies. Cangene is also developing products it intends to market as biogenerics.

The Company has two approved products, four that are in late-stage development (including two that have been submitted for regulatory review) and several more at various stages of research and development. Revenue growth provides shareholders with the financial stability they seek, while product and technology innovation add growth potential to the mix.

Cangene has been listed on the Toronto Stock Exchange since 1991 under the symbol CNJ. The Company has operations in Manitoba, Ontario, Maryland, Florida and California. The majority of its approximately 600 employees work in Winnipeg and Baltimore. Additional company information can be found at www.cangene.com and www.cblinc.com.

Unless stated otherwise, dollar amounts are in Canadian dollars.

The Year at a Glance

- Revenue increased by 114%
- Earnings increased by 284%
- Awarded CDC contract to develop and supply Vaccinia immune globulin
- Awarded CDC contract to develop and supply anti-anthrax hyperimmune
- Entered partnership with Canadian government to develop anti-Ebola and anti-Marburg products, and to investigate using LEUCOTROPIN® as a radiation-exposure therapy
- Awarded CDC contract to develop hyperimmune globulin to counteract botulinum toxin
- Expanded corporate offices, packaging facility and warehouse in Winnipeg
- Signed marketing agreement with Acambis plc for Cangene's VIG
- Announced marketing and distribution agreement with Baxter Healthcare Corporation for European distribution of WinRho® SDF
- Entered second partnership with Canadian government to develop anti-ricin hyperimmune globulin
- Entered R&D partnership with Health Canada's National Microbiology Laboratory to investigate the use of hyperimmune globulins for treating SARS
- Entered collaborative research agreement with Acambis plc to develop and manufacture a hyperimmune globulin against West Nile virus
- Submitted LEUCOTROPIN® to Health Canada for review; first of Cangene's recombinant products to be submitted

Selected Financial Data

in thousands of Cdn dollars except per-share data	**Year ended July 31, 2003**	Year ended July 31, 2002	Year ended July 31, 2001	Year ended July 31, 2000	Year ended July 31, 1999
Revenues	**$ 182,602**	$ 85,276	$ 65,826	$ 57,856	$ 49,236
Other income	**3,611**	3,038	2,318	1,618	269
R&D expenses (net of investment tax credits)	**18,070**	13,157	11,620	11,443	10,036
Income taxes	**22,066**	10,214	8,598	5,000	72
Net income for the year	**40,090**	10,434 [1]	12,899	9,994 [2,3]	15,412
Basic earnings per share	**0.67**	0.18 [1]	0.22	0.17 [2,3]	0.26
Cash, end of year	**6,273**	1,473	8,936	16,236	12,908
Debt	**36,715**	73,942	66,133	4,959	6,750
Total shareholders' equity	**119,397**	78,673	67,340	53,467	45,460
Weighted-average number of common shares outstanding during the year	**# 60,186,293**	# 59,580,372	# 59,139,034	# 59,072,860	# 59,196,308

1 Net income reflects an expense of $5.0 million or $0.08 per share related to a charge against goodwill.

2 Includes a special, non-recurring charge of $4.5 million or $0.08 per share ($2.8 million or $0.05 per share after tax) related to certain manufacturing activities and regulatory technicalities during the year.

3 Includes a special non-recurring charge of $2.7 million or $0.05 per share ($1.7 million or $0.03 after tax) related to the restructuring of certain distribution agreements outside North America.

Measures of Success

"No matter which measure you choose, 2003 was an exceptional year for Cangene."

Dr. John Langstaff

Message to Shareholders – Results you can Measure

No matter which measure you choose, 2003 was an exceptional year for Cangene. Our revenue doubled, both our contract research and manufacturing business and our net income nearly quadrupled, and since the beginning of fiscal 2003 we have added seven new hyperimmunes to our development pipeline.

The contract research and manufacturing segment drove the growth, rising from 41% of revenues last year to 69% this year. Much of this increase came from two large U.S. contracts in association with the U.S. Centers for Disease Control and Prevention ("CDC") related to the smallpox vaccination program. These contracts have been key, not only because of the revenue they generated but also by reinforcing our position as a recognized developer and provider of innovative hyperimmune products. Since signing those contracts, we have been selected by the CDC to develop and manufacture two additional hyperimmunes with biodefence applications—anti-anthrax and anti-botulinum toxin.

I'm extremely proud of that recognition of our hyperimmune capabilities, and it augurs well for our continued development of new products and business opportunities. I believe very strongly that infectious diseases will be the challenge of this century and that we need effective tools to combat them. The rapid global spread of severe acute respiratory syndrome ("SARS") is one example of how quickly an infectious disease can become a major health issue worldwide, and how easily our fragile defences can be overcome. We entered the SARS arena, in conjunction with Health Canada's National Microbiology Laboratory, with a project aimed at furthering research into the disease and perhaps developing a hyperimmune that could be useful as a therapeutic in SARS cases. Subsequent to the year-end, we also received funding from the National Institute of Allergy and Infectious Disease, a part of the United States National Institutes of Health, to develop a SARS hyperimmune.

We also have three projects underway with a Canadian government initiative (CBRN Research and Technology Initiative; "CRTI") aimed at improving Canada's readiness in the event of chemical, biological, radiological or nuclear incidents ("CBRN"). The first will explore the use of antibody therapies to treat infection by Ebola or Marburg virus. These related viruses cause hemorrhagic fever and there is currently no effective treatment. The second is a collaborative project with Twinstrand Therapeutics and is aimed at ricin, a potent plant-derived toxin with no antidote. And the third CRTI project is to evaluate the use of our recombinant biopharmaceutical product, LEUCOTROPIN®, as a therapy for radiation exposure.

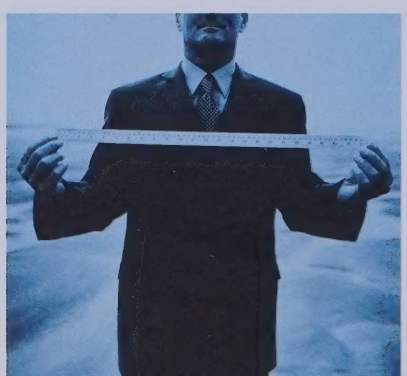
While these are early-stage research projects, they illustrate the diverse potential of our technologies.

I'm very pleased to report that we have filed a regulatory submission for LEUCOTROPIN®; this is our first recombinant biopharmaceutical filing. LEUCOTROPIN® is a protein called GM-CSF, and we are seeking approval for its use in enhancing recovery of certain white blood cells in patients with Hodgkin's disease and non-Hodgkin's lymphoma following stem cell transplantation. This filing is the culmination of a great deal of development work and is a significant step in our recombinant biopharmaceutical development program.

WinRho® SDF sales continued to grow, generating nearly all the $56 million in biopharmaceutical revenue. We have an agreement with Baxter Healthcare Corporation, under which Baxter will market and distribute WinRho® SDF for treating a blood-clotting disorder called immune thrombocytopenic purpura ("ITP") throughout Europe, excluding Portugal. Europe is a large new market and we believe that Baxter has the right presence to exploit new opportunities there. It has already launched the product in the United Kingdom.

In March, we signed a marketing agreement with Acambis plc, a leading U.K.-based vaccine company, for our Vaccinia immune globulin ("VIG"). Acambis will market the product outside North America and Israel. VIG is one of the products we are developing with the CDC and is used in treating and preventing certain severe reactions that may be brought on by the administration of smallpox vaccine. As an important component of smallpox vaccination programs, VIG complements current vaccine products.

Subsequent to the year-end, we began working with Acambis to develop and manufacture a hyperimmune globulin for treating and preventing infection by West Nile virus. Our companies will share development and funding, with Acambis supplying product-assay technology and vaccine for inoculating plasma donors,



and Cangene collecting the plasma and developing and manufacturing the product.

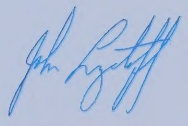
The foregoing developments in our already deep pipeline ensure a busy time for our scientific and regulatory staff, and provide solid growth potential going forward. As well, our regulatory group is preparing a submission for our second recombinant biopharmaceutical, human growth hormone. Our R&D groups will focus on developing new technologies, particularly aimed at generating monoclonal antibodies and second-generation biopharmaceutical products.

We added to our facilities through the year with 76,000 square feet of new packaging, office and warehouse space.

On the financial front, our revenues for fiscal 2003 were $182.6 million, up $97.3 million or 114% from fiscal 2002. The increase is attributable mainly to significant manufacturing contracts. Net income for fiscal 2003 was $40.1 million or $0.67 per share compared with $10.4 million or $0.18 per share, an increase of 284% over last year.

Research expenses for the year were $18.1 million, an increase of 37% over $13.2 million in the year ended July 31, 2002. Selling, General and Administrative expense of $12.4 million for the year is $3.2 million greater than last year due in part to the increases in our business activities during the current year. Cash at July 31, 2003 was $6.3 million, compared with $1.5 million at July 31, 2002. Increased cash and decreased borrowings were due to the significant increase in revenues and earnings.

Finally, we are proud to have been recognized as Manitoba's Outstanding Large Business for 2003 by the Manitoba Chamber of Commerce.



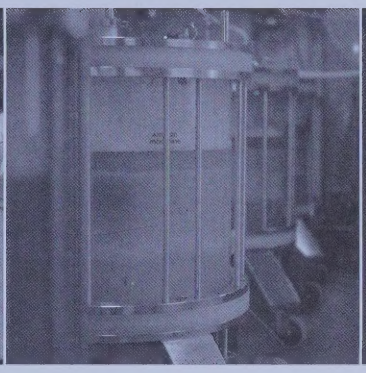
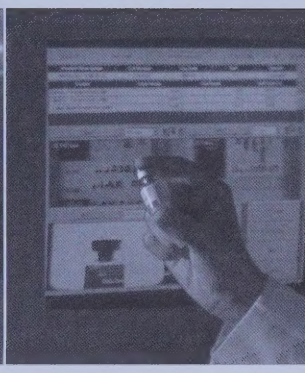
Dr. John Langstaff
President and Chief Executive Officer
October 20, 2003

"For make no mistake: there will be a next time."

"...Our war against SARS, and other emerging infectious diseases, will only succeed if we bring every available weapon to bear..."

Alan Bernstein, OC, PhD, FRSC, president Canadian Institutes of Health Research, *The Globe and Mail, June 19, 2003*



Once considered conquered by antibiotics, infectious diseases dominated headlines throughout 2003. Continued concerns about biowarfare, the rapid globalization of pathogens such as West Nile virus and monkey pox, and the sudden emergence of SARS have all heightened the need for new treatment options and preventative measures.

Several years ago, Cangene recognized the potential therapeutic benefits of hyperimmunes—purified natural antibodies—in the fight against infectious disease. And it has established a manufacturing process based on production of its lifesaving drug, WinRho® SDF. Hyperimmunes can be used to provide a patient with immediate immunity, either when there isn't time to wait for a response to a vaccine or when the immune system isn't functioning properly. Cangene's innovative hyperimmune products generally enter clinical development in Phase II, thus significantly reducing the time and cost for developing new drugs.

Many targets are possible for hyperimmune therapies, provided that commercial quantities of plasma containing the specific antibodies are available; this can be obtained from vaccinated donors or recovered patients. Cangene purchases the majority of its plasma from commercial suppliers and collects the rest at its four wholly-owned plasma centres. Cangene began development of seven new hyperimmunes, during 2003.

New in Development

Vaccinia immune globulin ("VIG")
- to counteract certain side effects of smallpox vaccine
- developing under contract with CDC
- marketing agreement with Acambis plc outside North America and Israel

Anthrax immune globulin
- adjunct to antibiotic therapy in critically ill patients with anthrax
- developing for CDC under contract

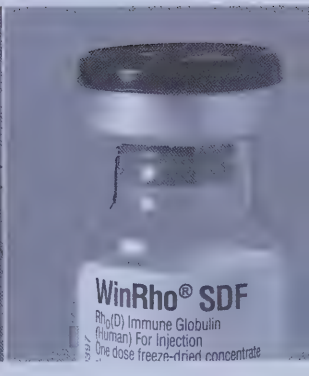
Botulinum toxin immune globulin
- to counteract botulinum toxin (botulism)
- developing under contract with CDC

West Nile virus immune globulin
- to treat and prevent infection by West Nile virus
- developing in collaboration with Acambis plc

Ebola and Marburg immune globulins
- to treat and prevent hemorrhagic fever caused by Ebola or Marburg viruses
- with funding from Canadian CBRN Research and Technology Initiative

Ricin immune globulin
- to counteract ricin, a deadly plant-derived toxin
- collaboration with Twinstrand Therapeutics Inc.
- with funding from Canadian CBRN Research and Technology Initiative

SARS immune globulin
- to treat patients with severe acute respiratory syndrome
- partnership with Health Canada's National Microbiology Laboratory and supported by three Toronto hospitals (Princess Margaret, Mount Sinai and Sunnybrook)
- research and development contract with National Institute of Allergy and Infectious Disease in the U.S.



Approved or Filed

WinRho® SDF

- antibodies to a certain type of red blood cell
- used to prevent hemolytic disease of the newborn and treat ITP
- sold in about 40 countries worldwide
- new European distributor actively pursuing geographic expansion
- generated most of Cangene's $56-million biopharmaceutical revenue

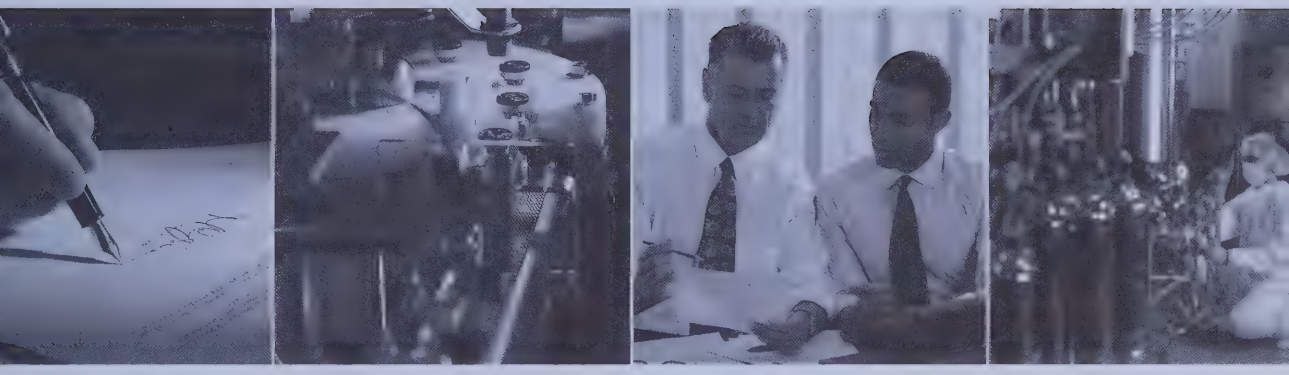
VariZIG™

- antibody to Varicella zoster, the virus that causes chicken pox
- used to prevent chicken pox during pregnancy
- approved in Canada

Hepatitis B immune globulin

- to prevent post-exposure hepatitis B infection
- submitted for regulatory review in Canada and the United States

Cangene offers lab scale to full production services. In fiscal 2003, its contract business accounted for 69% of sales, a revenue increase of nearly four times over 2002.



Cangene's contract research and manufacturing segment overlaps with the hyperimmune products because its largest contracts involve developing and manufacturing hyperimmune globulin products; an area in which Cangene is developing a worldwide reputation. When the U.S. Centers for Disease Control and Prevention wanted a company to develop and manufacture the Vaccinia immune globulin it needed for its smallpox vaccine program, it selected Cangene. Similarly, Cangene won the contracts when the CDC needed a company to develop and manufacture hyperimmunes to anthrax and the toxin that causes botulism and when the National Institute of Allergy and Infectious Disease was looking for a hyperimmune to the virus that causes SARS.

Cangene's specialized facilities for filling and finishing sterile injectable products and its new viral vaccine-filling facility at its Chesapeake Biological Laboratories, Inc. subsidiary in Baltimore, Maryland allow it to offer contract research and manufacturing services for technically complex, process-sensitive compounds. Its Canadian, FDA-validated manufacturing operation provides a variety of specialized services to international clients. Customers are attracted by Cangene's global compliance and established reputation.

Cangene occupies a niche in the contract manufacturing industry because its size gives it the flexibility to offer services from laboratory scale to full production. One of Cangene's earliest customers has moved from the initial R&D process through regulatory filing and is now planning commercial pre-launch manufacturing. Cangene provided the development and manufacturing services throughout.

Two of Cangene's key projects are related to the CDC's smallpox vaccination program in the United States. The first was a subcontract to fill smallpox vaccine for the vaccine manufacturers Acambis Inc. and Baxter BioSciences; the second was VIG, which is used to counteract certain severe reactions to the smallpox vaccine.

More than 50 customers used Cangene's services in 2003, with contracts ranging from preclinical to commercial stages; using diverse technologies such as mammalian cell expression, oligonucleotide production, bacterial fermentation and antibody purification; and from geographically dispersed companies, including several new European customers.

Unlike biopharmaceuticals, contract revenue doesn't have to wait for regulatory approvals, giving Cangene a revenue stream independent of its own drug development timelines.

"... the worldwide generic biologics market will experience explosive growth from $30M in 2003 to reach approximately $12B in 2010."

Generic Biologics: A Strategic Market Outlook and Business Analysis, Front Line Strategic Consulting

If industry reports, conferences and impending patent expirations are any indication, generic versions of biopharmaceuticals will soon challenge for a share of the lucrative biopharmaceutical market. Cost-conscious healthcare systems will welcome cheaper alternatives to expensive protein-based drugs. Manufacturers must still find their way through a regulatory system not yet set up for biogenerics, but change is beginning—the European Agency for the Evaluation of Medicinal Products adopted new guidelines last year and Business Week Online (November 3, 2003) quotes Dr. Mark B. McClellan, Commissioner of the FDA, as saying "we are looking at some first steps toward generic biologics."

Cangene is a leader in the biogeneric field with an established technology base and manufacturing expertise. These products could have shorter development times than their innovative counterparts, thus reducing cost and risk. Cangene's majority shareholder, the Apotex Group, is a leading generic drug company; it supports development of certain products in Cangene's biogeneric pipeline and brings valuable industry experience to the partnership.

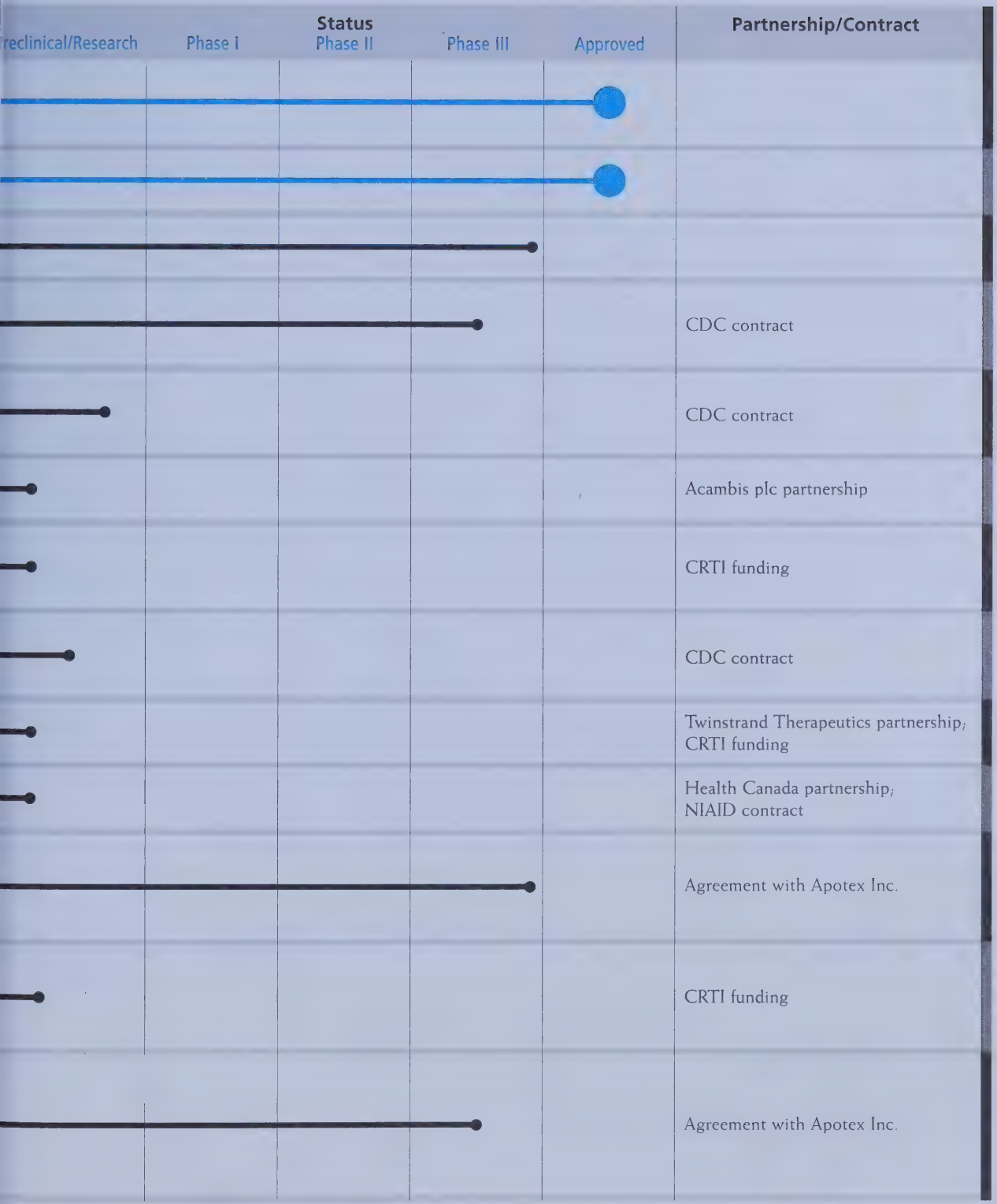
Cangene achieved a significant milestone in its biopharmaceutical program with the recent regulatory submission of its first recombinant protein product, LEUCOTROPIN®, for enhancing recovery of patients with Hodgkin's disease and non-Hodgkin's lymphoma following stem cell transplantation. LEUCOTROPIN® is a protein called GM-CSF that stimulates the production of certain white blood cells. These important immune system cells can be depleted by chemotherapeutic agents and radiation. Cangene is also investigating use of LEUCOTROPIN® as a therapy for white-blood-cell damage resulting from radiation exposure.

Cangene is preparing to file a submission of its second recombinant biopharmaceutical, human growth hormone ("hGH") next year. Several versions of human growth hormone currently share a very large market. Cangene recently signed a European agreement with BioGeneriX AG, a subsidiary of one of Europe's leading generic companies, to pursue regulatory approval and subsequent marketing of Cangene's hGH.

A key component in the marketing strategy for generic products is a competitive selling price. Cangene brings proprietary expression technologies to the production of some of these proteins; these technologies confer manufacturing advantages, allowing the Company to produce high-quality products cost effectively.

2003 – Cangene Product Pipeline

Product	Description	Indication
WinRho® SDF	Hyperimmune: Purified antibody specific for Rh+ red blood cells (also called anti-D immunoglobulin)	Preventing hemolytic disease of the newborn and treating ITP (an autoimmune platelet disorder)
VariZIG™	Hyperimmune: Purified antibody specific for Varicella zoster virus (chicken pox virus)	Preventing chicken pox during pregnancy
Hepatitis B immune globulin	Hyperimmune: Purified antibody specific for hepatitis B virus	Preventing post-exposure hepatitis B infection
Vaccinia immune globulin	Hyperimmune: Purified antibody specific for Vaccinia (the virus used to make smallpox vaccine)	Treating and preventing severe reactions that may accompany smallpox vaccinations
Anthrax immune globulin	Hyperimmune: Purified antibody specific for Bacillus anthracis, the bacteria that cause anthrax	Treating critically ill people who have anthrax
West Nile immune globulin	Hyperimmune: Purified antibody specific for West Nile virus	Treating and preventing West Nile infection
Ebola/Marburg immune globulins	Antibodies to Ebola or Marburg viruses	Treating and preventing hemorrhagic fever caused by Ebola or Marburg viruses
Botulinum toxin immune globulin	Hyperimmune: Purified antibody specific for botulinum toxin (the toxin that causes botulism)	Treating botulism
Ricin immune globulin	Hyperimmune: Purified antibody specific for ricin toxin (deadly plant-derived toxin)	Treating ricin poisoning
SARS immune globulin	Hyperimmune: Purified antibody specific for the virus that causes SARS	Treating SARS
LEUCOTROPIN® (cancer)	Biopharmaceutical: Granulocyte-Macrophage Colony-Stimulating Factor (GM-CSF), a protein that enhances mature, infection-fighting white-blood-cell production	Enhancing mature white-blood-cell production in stem cell transplantation for cancer patients
LEUCOTROPIN® (radiation)	Biopharmaceutical: Granulocyte-Macrophage Colony-Stimulating Factor (GM-CSF), a protein that enhances mature, infection-fighting white-blood-cell production	Treating radiation exposure
Human growth hormone	Biopharmaceutical: a protein that promotes growth of long bones before puberty	Growth hormones are used to treat growth hormone deficiencies, Turner syndrome in girls, wasting and various other metabolic conditions


Status
reclinical/Research
Phase I
Phase II
Phase III
Approved
Partnership/Contract
CDC contract
CDC contract
Acambis plc partnership
CRTI funding
CDC contract
Twinstrand Therapeutics partnership;
CRTI funding
Health Canada partnership;
NIAID contract
Agreement with Apotex Inc.
CRTI funding
Agreement with Apotex Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This review contains management's discussion of the Company's operational results and financial condition, and should be read in conjunction with the accompanying audited financial statements and associated notes.

Overview

Cangene Corporation ("the Company") is a leading Canadian biopharmaceutical company in the business of developing, manufacturing, and commercializing products and technologies for global markets. Revenues are generated by product sales, contract manufacturing, contract research and development, and royalties. Generally, the Company manages its business and evaluates performances based on two operating segments: biopharmaceutical operations and contract research and manufacturing. Cangene has two different categories of products in development: hyperimmune products, which are concentrated specialty antibody preparations made from plasma; and recombinant biopharmaceuticals, which are therapeutic proteins made by introducing a particular gene into a host organism, which in turn produces the protein of interest. Apotex Holdings Inc., the parent company of Apotex Inc. (a leader in the Canadian generic drug industry), holds approximately 81% of Cangene's common stock. Eighty-eight percent of revenues are from non-Canadian customers and are transacted mostly in U.S. dollars.

WinRho® SDF is the Company's first licensed product. The majority of biopharmaceutical revenues relates to sales of this product, which the Company has sold in about 40 countries worldwide. This revenue contributes to Cangene's research and development program of new hyperimmune products. The Company continues to seek additional markets for this product. Cangene's second hyperimmune product, VariZIG™, is an antibody to the chicken pox virus. An anti-hepatitis B product is the third hyperimmune in Cangene's pipeline. The Company is awaiting licensure of this product after having filed a Biologics License Application ("BLA") with the FDA and a New Drug Submission ("NDS") in Canada, seeking approval for use of the drug for post-exposure prevention of hepatitis B infection. During the year, the Company announced the initiation of a number of new hyperimmune projects; these are discussed under "New Developments".

The Company is developing certain recombinant biopharmaceuticals as biogenerics. Cangene had expected to file for regulatory approval for its leading products in this category, LEUCOTROPIN® ("GM-CSF") and human growth hormone, during 2003. Subsequent to the year-end, the Company filed a Canadian NDS for LEUCOTROPIN®, and expects to file for human growth hormone in 2004. The Company has an agreement with Apotex Inc. to support the development of certain biopharmaceutical products through to initial regulatory filing. To July 31, 2003, Cangene had received approximately $69.7 million under the agreement.

Cangene has an ongoing innovative R&D program which provides further opportunities for long-term future growth.

The Company's other operating segment, contract R&D and manufacturing, continues to contribute significant revenues to the overall operation. Revenues for the segment rose to 69% of overall revenue for fiscal 2003 and the Company expects continued strong contributions from this segment in 2004.

New Developments

In August 2002, the Company announced that it had been awarded a contract by the United States Centers for Disease Control and Prevention to develop and supply a Vaccinia immune globulin for use in treating and preventing severe reactions that may be brought

on by the administration of the smallpox vaccine. The smallpox vaccine is made from a live virus related to smallpox, called Vaccinia. The vaccine stimulates the immune system to react against the Vaccinia virus and develop immunity to it, which in turn provides immunity to smallpox. Accordingly, since this is a live viral vaccine, adverse events may occur. VIG is a key part of any government program to protect against the threat of smallpox. The contract is for a five-year period to supply a maximum of 100,000 doses of VIG. The CDC will order product under this contract on an as-needed basis. Separately, but in conjunction with this contract, the CDC is funding approximately $11.5 million for certain development costs associated with the product. Cangene began delivering on this contract during the second quarter of fiscal 2003.

In September 2002, the Company announced that it will undertake two research and technology projects as part of an initiative aimed at improving Canada's readiness in the event of chemical, biological, radiological or nuclear incidents ("CBRN"). The projects will be funded by the CBRN Research and Technology Initiative ("CRTI"), an interdepartmental federal government initiative mandated to improve Canada's ability to respond to CBRN incidents, and will be managed by Defence R&D Canada. The first project aims Cangene's expertise in developing therapeutic antibodies at Ebola and Marburg viruses. Both viruses cause hemorrhagic fever and no effective therapeutic or prophylactic treatments exist. Within this project, Cangene will develop both polyclonal (isolated from plasma) and monoclonal (produced in the laboratory) antibodies to the viruses, and assess safety and efficacy of the products. The second project seeks to demonstrate the utility of Cangene's LEUCOTROPIN® as a treatment for white-blood-cell damage resulting from radiation exposure.

Later in September, Cangene announced that it had been awarded a contract by the CDC to develop a clinical-grade hyperimmune globulin to be used as an adjunct to antibiotic therapy in critically ill patients with anthrax. Under this initial program, the hyperimmune globulin will be used for preclinical studies, as well as human compassionate use and safety testing. This innovative hyperimmune globulin will initially be used under an Investigational New Drug application. The goal of the program is to have available an FDA-licensable product.

Then, in January 2003, the Company announced that it had been awarded another CDC contract, this time to develop a clinical-grade hyperimmune globulin that will be used to counteract botulinum toxin (the toxin that causes botulism). Cangene's longer-term objective is to seek an FDA licence for the product. Botulinum toxins are the most poisonous substances known and since naturally-occurring cases are rare, the general population has no immunity to the toxins.

In March 2003, Cangene concluded an agreement with Acambis plc to market Cangene's VIG product in markets outside of North America and Israel. Cangene and Acambis will work together to supply this product. Acambis is at the forefront of efforts to combat the threat of smallpox used as a bioterrorist weapon and Cangene's VIG complements current smallpox vaccine programs.

Later in March, the Company announced that it had entered a European marketing and distribution agreement for its WinRho® SDF hyperimmune with Baxter Healthcare Corporation. Baxter will market and distribute the product in Europe, excluding Portugal, for treating a blood-clotting disorder called immune thrombocytopenic purpura ("ITP"). The product has subsequently been launched in the United Kingdom.

In April 2003, Cangene announced that it will undertake a third CRTI-funded biodefence project in collaboration with Burnaby, B.C.-based Twinstrand Therapeutics Inc. The partners intend to develop antibody-based therapies for individuals exposed to a toxin known as ricin. Ricin is a potent toxin found in castor beans. It shuts down protein synthesis inside cells, eventually killing the cell. The specific symptoms of ricin poisoning vary depending on the route of exposure—inhalation, ingestion or injection—but all can be fatal. No antidote exists.

And in June 2003, the Company signed a Memorandum of Understanding with Health Canada's National Microbiology Laboratory ("NML") to further public health research into severe acute respiratory syndrome ("SARS"). The agreement will facilitate the development of a hyperimmune globulin from plasma obtained from recovered SARS patients. This hyperimmune may result in a therapeutic agent for use in the treatment of SARS.

Subsequent to the year-end, Cangene entered a collaborative research and development agreement with Acambis plc to develop and manufacture a hyperimmune globulin for treating and preventing infection by West Nile virus (West Nile immune globulin, "WNIG"). The companies will share development and funding for the project. Acambis will provide its investigational ChimeriVax-West Nile vaccine, qualified product-assay technology and testing for efficacy of the WNIG. Cangene will collect plasma, and develop and manufacture the product using its established manufacturing process in its Winnipeg facility. A hyperimmune globulin against West Nile may be used to treat people who have become infected with the virus and to give immediate protection to immunocompromised individuals, such as the elderly, whose immune systems may not be able to generate a sufficient immune response.

The Company has an ongoing agreement with the Apotex Group for the drug known as deferiprone. Under the agreement, Apotex is responsible for manufacturing and marketing the product worldwide and Cangene receives 50% of any net profits from the sales. In return, Apotex received warrants to purchase 5,300,000 common shares of the Company. One half of these warrants expired on November 5, 2001, and the remaining warrants expire on November 5, 2003. Apotex has notified the Company of its intention to exercise these warrants by the end of the first quarter of fiscal 2004. During the year ended July 31, 2003, the Corporation earned revenue of $3.4 million (2002 – $2.6 million), representing its share of the net profits from the worldwide sales of deferiprone.

Subsequent to year-end, the Company announced that it had filed a Canadian New Drug Submission for LEUCOTROPIN®, a protein known as GM-CSF. The submission seeks approval from the Biologics and Genetic Therapies Directorate for use of the drug in enhancing recovery of certain white blood cells in patients with Hodgkin's disease and non-Hodgkin's lymphoma following stem cell transplantation. Cangene developed this product with the Apotex Group, which plans to market the product in Canada.

Also subsequent to year-end, the Company signed a research and development contract with the National Institute of Allergy and Infectious Diseases ("NIAID"), part of the United States National Institutes of Health ("NIH"), to develop a hyperimmune specific for the virus that causes SARS. NIAID will supply the plasma and funding for the project.

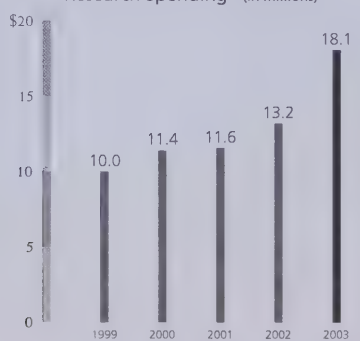
Competition and Markets

The Company continues to seek expansion of its market for the sale of WinRho® SDF in all jurisdictions. The majority of the product's sales in Canada are for the suppression of Rh isoimmunization in pregnant, non-sensitized Rh-negative women (hemolytic disease of the newborn, "HDN"). The product is also licensed for the treatment of ITP, a clotting disorder, and additional sales opportunities exist within this indication. Conversely in the United States, the majority of sales of WinRho® SDF are for ITP. Nabi Biopharmaceuticals, the Company's U.S. distributor, continues to expand the market, and the Company believes that additional opportunities exist for this product in both ITP and HDN. Ongoing product developments will hopefully lead to expanded sales opportunities in the United States.

Internationally, Cangene continues on an aggressive campaign to market its products. Although WinRho® SDF is licensed in the U.K., Ireland and Portugal, the rest of Europe is still untouched. This is an important goal for the Company. Filing across Europe will potentially open up significant market opportunities, which the Company and its new marketing partner, Baxter, intend to pursue. Filings are also being prepared for a number of additional jurisdictions throughout the world.

Cangene is pursuing a generic strategy for certain products in its recombinant biopharmaceutical pipeline. As such, it will compete with already established products in the marketplace. Cangene believes that cost-containment issues within healthcare institutions make the environment favourable for competing on the basis of price. It believes that its manufacturing expertise and cost-effective production technologies will allow it to manufacture products of the highest quality at competitive prices. Cangene's human growth hormone and LEUCOTROPIN® will compete with similar products manufactured by other companies; however, both products address large markets.

Research Spending* (in millions)



*After applying investment tax credits

Risk Factors

While Cangene does have one product generating significant sales, and has contract research and manufacturing revenue, and royalty income, most of its products are still under development. There can be no assurance at this stage that any new products the Company develops will receive regulatory approval. If approved, some of these products will compete with established products of proven safety and efficacy, the manufacturers of which can be expected to employ intellectual property challenges against commercialization of these products by Cangene. There can be no assurance that the Company's products will be commercialized or, if commercialized, that medical centres, hospitals, physicians or patients will accept them in lieu of existing treatments. Accordingly, there can be no assurance that these products can be successfully manufactured and marketed at prices that would permit the Company to operate profitably.

As discussed above, the Company plans a generic approach to the licensing of certain biopharmaceutical products. There can be no assurance that regulatory agencies will accept this approach for all the products; if the strategy is found unacceptable by regulatory agencies, the Company would have to follow a full clinical-trial program for its biopharmaceutical drugs, which could materially slow their commercialization and increase the cost of approval.

Cangene's profitable manufacture of its hyperimmune products requires the availability of plasma with sufficient antibody levels. Cangene believes it has adequate supplier relationships. There can be no guarantees, however, that shortages will not occur. Cangene's ability to manufacture and ship product is subject to numerous regulatory conditions, which are complex and evolving. The supply of product can be interrupted should compliance become an issue. There can be no guarantees that the Company will remain in compliance at all times, although the Company undertakes a very stringent quality control, quality assurance and regulatory review process internally, on a continual basis.

The Company has sold product in some 40 different countries throughout the world. Although political events have had limited effect on the Company's ability to ship product in the past, there can be no guarantees that future events will not impede the distribution of products in the future.

Cangene has a number of significant contracts with government organizations and other third parties. There can be no assurance that these customers will continue to purchase products or services from the Company or that they will continue at current levels.

As previously discussed, 88% of revenues are generated from non-Canadian customers and accordingly are transacted in foreign currencies, mostly in U.S. dollars. Increases in the value of the Canadian dollar versus foreign currencies, especially the U.S. dollar, would have an adverse effect on earnings.

Results of Operations

Fiscal year ended July 31, 2003 compared with fiscal year ended July 31, 2002

Net earnings for the year ended July 31, 2003 were $40.1 million or $0.67 per share compared with $10.4 million or $0.18 per share for the year ended July 31, 2002, an increase of 284%.

Revenues, consisting of product and contract research and manufacturing sales, for the year ended July 31, 2003 were $182.6 million, an increase of 114% over

revenues for the year ended July 31, 2002 of $85.3 million. Revenues consolidate the accounts of Cangene Corporation, and its wholly-owned subsidiaries, Cangene U.S. Incorporated, Chesapeake Biological Laboratories, Inc., Biotherapeutic Laboratories, Inc., and Mid-Florida Biologicals, Inc.

The Company's research revenues derive from a research and development agreement with Apotex Inc., as well as other contract-research activities. Research expenses for fiscal 2003 were $18.1 million, an increase of 37% over $13.2 million in the year ended July 31, 2002. Other income includes Cangene's share of profits with respect to deferiprone.

Selling, general and administrative expenses for the year increased by 34% from $9.3 million in the year ended July 31, 2002 to $12.4 million in the 2003 fiscal year. This increase of $3.2 million is due in part to the increased business activities in the current year.

In the year ended July 31, 2003, Cangene recorded a $22.1 million income tax expense versus $10.2 million in the previous year. The combined statutory federal and provincial tax rate incurred is virtually unchanged year over year. The weighted-average number of common shares used in computing earnings per share was 60,186,293 (59,580,372 for 2002). The Company does not believe that inflation had a material effect on its financial statements.

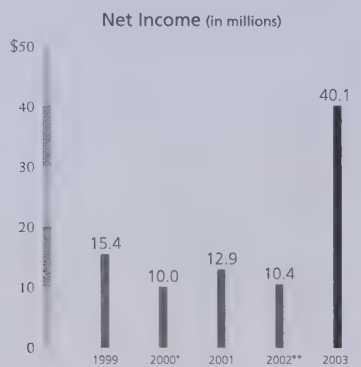
Liquidity and Capital Resources

Cash at July 31, 2003 was $6.3 million, an increase of $4.8 million over the previous fiscal year. This increase was due to the increased operating activities during the year.

The Company has $16 million in operating lines of credit available from chartered banks. In addition, the Company's majority shareholder provides the Corporation with a $5.0-million revolving-term loan. The Company's ability to generate funds from operating activities, including product sales, contract research and manufacturing, as well as debt financing from its bank and parent, are expected to provide sufficient liquidity to meet anticipated needs of existing projects, absent the occurrence of any unforeseen events.

Additional Comments

The foregoing report contains certain forward-looking comments that involve risks and uncertainties. While the comments reflect management's judgment, there can be no guarantees with such events as regulatory approval, purchase of products and services by government organizations and other third parties, commercial success of new products, the impact of competitive products, pricing, or the availability of raw materials. Actual results may differ materially from those projected.



* Includes special, non-recurring charges of $4.5 million after tax
** Includes a $5.0 million charge against goodwill

Management's Report

The accompanying consolidated financial statements of Cangene Corporation are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment. Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. Financing and operating data elsewhere in the Annual Report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Cangene Corporation maintains internal accounting controls. While no system will prevent or detect all errors or irregularities, the controls are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded, and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility with respect to the consolidated financial statements primarily through its Audit Committee, comprising mainly unrelated directors. The Audit Committee meets with management and the external auditors to discuss the annual audit, accounting policies and practices, and other financial reporting matters.

The most recent financial statements have been audited by Ernst & Young LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows hereafter.

John Langstaff
President and
Chief Executive Officer

Alex Glasenberg
Chief Financial Officer

Auditors' Report

To the Shareholders of Cangene Corporation

We have audited the consolidated balance sheets of Cangene Corporation as at July 31, 2003 and 2002 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at July 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
September 19, 2003.

Chartered Accountants

Consolidated Balance Sheets

Cangene Corporation — Incorporated under the laws of Ontario

in thousands of Cdn dollars

	As at July 31, 2003	As at July 31, 2002
ASSETS *(notes 8 and 9)*		
Current		
Cash	$ 6,273	$ 1,473
Accounts receivable *(note 3)*	25,534	12,975
Income and other taxes receivable	—	5,705
Inventories *(note 4)*	18,822	20,898
Prepaid expenses and deposits	2,301	1,585
Total current assets	52,930	42,636
Property, plant and equipment, net *(note 5)*	86,742	81,117
Future income taxes *(note 10)*	5,027	—
Goodwill *(note 6)*	41,995	51,887
Intangible assets, net *(note 7)*	912	883
	$ 187,606	$ 176,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	$ —	$ 690
Accounts payable and accrued liabilities	20,361	16,262
Income and other taxes payable	686	—
Current portion of long-term debt *(note 9)*	3,535	6,530
Total current liabilities	24,582	23,482
Long-term debt *(note 9)*	33,180	66,722
Deferred income	5,572	3,837
Future income taxes *(note 10)*	4,875	3,809
Total liabilities	68,209	97,850
Commitments *(notes 14 and 19)*		
Shareholders' equity		
Share capital *(note 11)*	16,063	11,532
Cumulative translation adjustment *(note 12)*	(4,007)	(110)
Retained earnings	107,341	67,251
Total shareholders' equity	119,397	78,673
	$ 187,606	$ 176,523

See accompanying notes

On behalf of the Board:

John Langstaff, Director

Craig Baxter, Director

Consolidated Statements of Income and Retained Earnings

in thousands of Cdn dollars except per-share data	Year ended July 31, 2003	Year ended July 31, 2002
Revenues	$ 182,602	$ 85,276
Expenses		
Cost of sales *(note 19(c))*	84,952	33,363
Research *(note 16)*	18,070	13,157
Selling, general and administrative	12,415	9,264
Depreciation and amortization *(notes 5 and 7)*	6,118	3,862
Interest *(note 9)*	2,502	3,020
Goodwill impairment loss *(note 6)*	—	5,000
	124,057	67,666
Income before the following	58,545	17,610
Other income *(note 15)*	3,611	3,038
Income before income taxes	62,156	20,648
Income tax expense *(note 10)*		
Current	21,000	8,418
Future	1,066	1,796
	22,066	10,214
Net income for the year	40,090	10,434
Retained earnings, beginning of year	67,251	56,817
Retained earnings, end of year	$ 107,341	$ 67,251
Earnings per share *(notes 11(b) and 13)*		
Basic	$ 0.67	$ 0.18
Diluted	$ 0.62	$ 0.16

See accompanying notes

Consolidated Statements of Cash Flows

in thousands of Cdn dollars	Year ended July 31, 2003	Year ended July 31, 2002
OPERATING ACTIVITIES		
Net income for the year	$ 40,090	$ 10,434
Add (deduct) items not involving cash		
Depreciation and amortization	6,118	3,862
Net investment tax credits *(note 17(b))*	5,705	1,922
Deferred income	1,736	384
Future income taxes	1,066	1,796
Goodwill	—	5,000
	54,715	23,398
Net change in non-cash working capital balances related to operations *(note 17(a))*	(7,112)	(4,795)
Cash provided by operating activities	47,603	18,603
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, net	(17,436)	(33,212)
Cost of computer software	(268)	(367)
Contributions received in aid of property, plant and equipment purchases	141	346
Cash used in investing activities	(17,563)	(33,233)
FINANCING ACTIVITIES		
Decrease in bank indebtedness, net	(690)	690
Issuance of long-term debt	—	15,197
Repayment of long-term debt	(29,081)	(9,777)
Proceeds on exercise of stock options	4,531	1,057
Cash provided by (used in) financing activities	(25,240)	7,167
Net increase (decrease) in cash during the year	4,800	(7,463)
Cash, beginning of year	1,473	8,936
Cash, end of year	$ 6,273	$ 1,473

See accompanying notes

Notes to Consolidated Financial Statements

July 31, 2003 and 2002

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis. The significant accounting policies are summarized below:

Consolidation

These financial statements consolidate the accounts of Cangene Corporation ("the Corporation") and its wholly-owned subsidiaries, Cangene U.S. Incorporated, Chesapeake Biological Laboratories, Inc. ("Chesapeake"), Biotherapeutic Laboratories, Inc. and Mid-Florida Biologicals, Inc.

Inventories

Inventories are valued at the lower of average cost and net realizable value for finished goods and work-in-process, and replacement cost for raw materials.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of investment tax credits. Depreciation is provided on a straight-line basis over the following periods based on the estimated useful lives of the assets:

Buildings	25 – 30 years
Equipment, furniture and fixtures	5 – 10 years
Computer equipment	5 years
Leasehold improvements	Term of lease

Goodwill

Goodwill represents the difference between the purchase price, including acquisition costs, of businesses acquired and the fair value of the identifiable net assets acquired. Goodwill is not amortized, but rather is subject to at least annual impairment tests using management's best estimate of discounted future cash flows. Any impairment in carrying value is recognized when it is identified.

Intangible assets

Amortization is provided on a straight-line basis over five years for technology rights and computer software. Management annually assesses the carrying value of intangible assets using its best estimate of undiscounted future cash flows and recognizes any impairment in carrying value when it is identified.

Income taxes

Income taxes are provided for using the liability method. Under this method, differences between the financial reporting bases and the income tax bases of the Corporation's assets and liabilities are recorded using the substantively enacted tax rates anticipated to be in effect when the corresponding taxes will be paid or refunded.

Foreign currency translation

(A) DOMESTIC AND INTEGRATED FOREIGN OPERATIONS

Assets and liabilities in foreign currencies related to domestic and integrated foreign operations are translated into Canadian dollars using current exchange rates for monetary assets and liabilities, historical exchange rates for non-monetary assets and liabilities, and the average exchange rate during the year for revenues and expenses, except for depreciation and amortization, which is translated at the historical exchange rate of the corresponding non-monetary assets. Exchange gains and losses arising on translation are included in income in the period incurred.

(b) Self-sustaining foreign operations

Assets and liabilities of Chesapeake are translated into Canadian dollars using the rate of exchange in effect at the balance sheet date. Revenue and expense items (including depreciation and amortization) are translated at the average exchange rate for the year. Exchange gains and losses arising from the translation are included in the cumulative translation adjustment account, a separate component of shareholders' equity. As well, the exchange gains and losses arising from the translation of the U.S. non-revolving loan (*note 9*), that has been designated as a hedge of the net investment in Chesapeake, are also included in the cumulative translation adjustment account.

Revenue recognition

The Corporation recognizes revenue from product sales, net of trade discounts and allowances, upon shipment, when all significant contractual obligations have been satisfied and collection is reasonably assured.

The Corporation has an agreement with a distributor that provides exclusive rights to market and distribute the Corporation's WinRho® SDF product in the United States until March 2005. The Corporation's share of the revenue from sales of WinRho® SDF by the distributor is recognized by the Corporation upon shipment by the distributor from its warehouse to the customer.

Revenue under contract-manufacturing agreements is for commercial manufacturing and development services. Revenue is recognized when goods are shipped or services are provided in accordance with the terms of the related agreements.

Revenue from research contracts is recognized when the related costs are incurred, except for revenue received in respect of equipment used for research, which is recorded as deferred income and amortized over the life of the related asset.

Research expenses

Research expenses are charged to income in the year they are incurred, net of related tax credits.

Government assistance

Government assistance in connection with research activities is recognized as an expense reduction in the year that the related expenditure is incurred. Government assistance in connection with capital expenditures is treated as a reduction of the cost of the applicable asset.

Federal and provincial investment tax credits are accounted for as a reduction of the cost of the related assets or expenditures in the year in which the credits are earned and when there is reasonable assurance of their recovery. Investment tax credits recorded in advance of their realization are recorded on the balance sheet as investment tax credits receivable.

Earnings per share

The calculation of earnings per share is based on net income divided by the weighted-average number of common shares outstanding during the year. Diluted earnings per share reflects the assumed conversion of all dilutive securities using the treasury stock method. Under the treasury stock method, the weighted-average number of common shares outstanding is calculated assuming that the proceeds from the exercise of options and warrants are used to repurchase common shares at the average price during the year.

Stock-based compensation plan

The Corporation has a stock option plan as described in *note 11(b)*. No compensation expense is recognized when stock options are issued to employees. Any consideration paid by employees upon exercise of stock options is recorded as an increase to share capital.

Financial instruments

Unless otherwise stated in these financial statements, the fair value of the Corporation's financial assets and liabilities approximates their carrying value.

The Corporation uses forward foreign exchange contracts to manage a portion of its exposure to foreign currency risk. The Corporation does not enter into financial instruments for trading or speculative purposes. Gains and losses on foreign exchange contracts are marked to market at the balance sheet date.

Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates.

2. CHANGE IN ACCOUNTING POLICY

Effective August 1, 2002, the Corporation prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants for Stock-Based Compensation and Other Stock-Based Payments ("Section 3870"). The new recommendations are generally applicable only to awards granted after the date of adoption. The effect of this change is to provide pro forma disclosure of net income and earnings per share as if stock options granted since August 1, 2002 were accounted for using the fair value method *(note 11(b))*.

3. ACCOUNTS RECEIVABLE

As of July 31, 2003, accounts receivable include approximately $11.8 million (2002 – $1.5 million) due from a major customer and $4.2 million (2002 – $2.4 million) due from Apotex Inc., a company under common control.

4. INVENTORIES

in thousands of Cdn dollars	2003	2002
Raw materials	$ 8,467	$ 5,706
Work in process	6,797	11,219
Finished goods	3,558	3,973
	$ 18,822	$ 20,898

5. PROPERTY, PLANT AND EQUIPMENT

in thousands of Cdn dollars	2003			2002		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 756	$ —	$ 756	$ 754	$ —	$ 754
Buildings	72,977	6,397	66,580	64,917	4,373	60,544
Equipment						
Production	22,947	8,788	14,159	20,892	6,877	14,015
Other	10,132	6,861	3,271	9,912	6,220	3,692
Furniture and fixtures	1,931	1,181	750	1,133	667	466
Computer equipment	2,377	1,950	427	2,804	2,063	741
Leasehold improvements	1,657	858	799	1,643	738	905
	$ 112,777	$ 26,035	$ 86,742	$ 102,055	$ 20,938	$ 81,117

Depreciation expense for the year amounted to $5.9 million (2002 – $3.7 million).

Buildings and equipment in the amount of $21.0 million (2002 – $30.1 million) are currently under development and therefore are not being depreciated.

Interest capitalized as part of the buildings during the year ended July 31, 2003 is $Nil (2002 – $0.5 million).

6. GOODWILL

Goodwill at July 31, 2003 amounted to $42.0 million (2002 – $51.9 million), net of accumulated amortization and writedowns of $6.6 million (2002 – $6.6 million). The change in the current year is due to recognition of pre-acquisition tax losses of $4.5 million and due to foreign exchange translation in the amount of $5.4 million.

At July 31, 2003, management conducted an annual review of the carrying value of goodwill and determined that there was no impairment. The same review in the prior year resulted in the recognition of a $5.0 million impairment.

7. INTANGIBLE ASSETS

in thousands of Cdn dollars	2003			2002		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Technology rights	$ 694	$ 694	$ —	$ 694	$ 694	$ —
Computer software	1,426	514	912	1,174	291	883
	$ 2,120	$ 1,208	$ 912	$ 1,868	$ 985	$ 883

Amortization expense for the year amounted to $0.2 million (2002 – $0.2 million).

8. OPERATING LINES OF CREDIT

In addition to the non-revolving credit facility described in *note 9*, the Corporation has available the following facilities:

(a) The Corporation has available a $1.0-million U.S. revolving line of credit facility, none of which was utilized at July 31, 2003 (2002 – $0.5 million U.S.), collateralized by a subsidiary's inventory and accounts receivable. Interest is payable at LIBOR plus 2.25%. The effective rate of interest for the year was 4.5% (2002 – 5.3%). This credit facility expires on December 31, 2003.

(b) The Corporation has available, to a maximum of $15.0 million (2002 – $8.0 million), a revolving-term loan from a Canadian chartered bank, none of which was utilized at July 31, 2003 and 2002, collateralized by a general security agreement in respect to all assets. Interest is payable at the bank's Canadian or U.S. dollar-equivalent prime lending rate or the bank's U.S. dollar base rate. The effective rate of interest during the year was 4.8% (2002 – 5.2%). The agreement expires on December 31, 2003 and is extendable at the bank's option.

(c) Apotex Holdings Inc., the Corporation's majority shareholder, provides the Corporation with a $5.0 million revolving-term loan. Interest is payable at the prime rate plus 1%. The agreement expires in 2004. The facility has not been utilized in the past four years.

9. LONG-TERM DEBT

in thousands of Cdn dollars	2003	2002
U.S. non-revolving loan, described below.	$ 20,336	$ 46,480
U.S. long-term non-revolving loan, bearing interest at LIBOR plus 1.625%, repayable in monthly instalments of $231,000 collateralized by a general security agreement. The effective rate of interest during the year was 3.1%.	10,192	14,570
U.S. bond maturing August 1, 2018, variable interest rate (to a maximum of 6.99% to November 2005), quarterly principal repayments of $217,388, collateralized by a letter of credit. The effective rate of interest during the year was 4.3% (2002 – 4.7%)	5,687	7,365
Industrial Research Assistance Program loan, non-interest bearing, repayable in quarterly instalments based on a percentage of revenues generated from the sale of a particular product commencing May 1, 2004. The loan is forgivable if the product does not go to market and a bonus payment of $250,000 may be payable if the product is successful, unsecured	500	500
U.S. loan, bearing interest at 6.5%	—	2,077
Manitoba Industrial Opportunities Program loan, bearing interest at 5.5%	—	1,500
Western Economic Diversification Canada loans	—	760
	36,715	73,252
Less current portion	3,535	6,530
	$ 33,180	$ 66,722

The Corporation's bank has provided the Corporation with a U.S.-dollar non-revolving credit facility, which translates to $20.3 million Canadian at July 31, 2003 (2002 – $46.5 million). Advances under the credit facility are evidenced by demand promissory notes and banker's acceptances. The outstanding principal balance will be amortized over a maximum period of five years with equal monthly principal payments to commence August 31, 2004. The credit facility bears interest at LIBOR plus 1.625%, and is collateralized by a general security agreement. The effective rate of interest during the year was 3.1% (2002 – 4.1%).

Assuming repayment of the above-mentioned non-revolving U.S. loan evenly over the five-year period commencing August 31, 2004, future repayment of long-term debt in the next five years is as follows:

in thousands of Cdn dollars	
2004	$ 3,535
2005	9,112
2006	8,612
2007	8,058
2008	5,926
Thereafter	1,472

Interest expense on long-term debt amounted to $2.1 million (2002 – $2.7 million).

10. INCOME TAXES

The Corporation's income tax provision is determined as follows:

in thousands of Cdn dollars	2003	2002
Combined statutory federal and provincial tax rate at 44.2% (2002 – 45.0%)	$ 27,452	$ 9,292
Adjusted for		
Goodwill impairment loss not deductible for tax	—	2,250
Recognition of previously unbooked losses of U.S. subsidiaries	(1,008)	—
Manufacturing and processing profits deduction	(4,064)	(1,816)
Large Corporations Tax	—	150
Other	(314)	338
Income tax expense	$ 22,066	$ 10,214

The Corporation's future income tax asset at July 31, 2003 in the amount of $5.0 million (2002 – $Nil) reflects the recognition of previously unrecognized U.S. tax losses. The future income tax liability at July 31, 2003 in the amount of $4.9 million (2002 – $3.8 million) reflects the tax effect of the temporary differences between the net book value of assets and the related cost for tax purposes.

11. SHARE CAPITAL

(a) Authorized and issued

The Corporation's authorized share capital comprises an unlimited number of preferred shares, Class A preferred shares and common shares.

Issued share capital comprises common shares as follows:

in thousands of Cdn dollars except share data	Number of shares	
July 31, 2001	59,431,170	$ 10,475
Stock options exercised	364,775	1,057
July 31, 2002	59,795,945	11,532
Stock options exercised	911,625	4,531
July 31, 2003	60,707,570	$ 16,063

(b) Stock options

The Board of Directors may authorize the issuance of up to 8 million common shares upon the exercise of options by employees and directors under a stock option plan, provided that the number of options outstanding to any one individual at any time does not exceed 5% of the outstanding shares. The exercise price of options granted under the plan cannot be lower than the market price of the Corporation's common shares on the date that the options are granted. These options expire no later than five and eight years after the date they are granted for directors and employees, respectively, and vest evenly over a period of four fiscal years.

A summary of the status of the Corporation's stock option plan as of July 31, 2003 and 2002 and changes during the years ending on those dates is presented below:

	2003		2002	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Outstanding at beginning of year	5,432,525	$ 5.50	5,031,350	$ 4.71
Granted	752,200	10.60	816,550	9.31
Exercised	(911,625)	4.97	(364,775)	2.90
Cancelled	(188,100)	8.80	(50,600)	7.00
Outstanding at end of year	5,085,000[1]	$ 6.23	5,432,525	$ 5.50
Options exercisable at end of year	3,965,050	$ 5.38	3,816,888	$ 4.67

The following table summarizes information about share options outstanding at July 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise price	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number outstanding	Weighted-average exercise price
$ 1.41	50,000	0.4 years	$ 1.41	50,000	$ 1.41
2.04	583,500	2.0	2.04	583,500	2.04
3.55	483,125	2.6	3.55	483,125	3.55
3.50	517,400	2.8	3.50	517,400	3.50
4.65	495,725	3.6	4.65	495,725	4.65
4.67	50,000	4.3	4.67	50,000	4.67
8.03	597,100	4.4	8.03	597,100	8.03
6.25	837,225	5.3	6.25	617,850	6.25
7.04	115,675	5.8	7.04	76,200	7.04
9.31	654,550	6.4	9.31	318,975	9.31
10.60	700,700	7.1	10.60	175,175	10.60
$1.41–10.60	5,085,000	4.5 years	$ 6.23	3,965,050	$ 5.38

The table below presents pro forma net income and earnings per share as if compensation expense related to stock options granted to employees had been determined based on the fair value method. The table includes only stock options granted by the Corporation after August 1, 2002, the date of adoption of Section 3870.

in thousands of Cdn dollars except per-share data	2003
Net income for the year as reported	$ 40,090
Fair value of stock options issued during the year	890
Pro forma net income for the year	$ 39,200
Pro forma basic earnings per share	$ 0.65
Pro forma diluted earnings per share	$ 0.61

Under the transitional provisions of Section 3870, Accounting for Stock-Based Compensation, comparative figures are not required.

The estimated fair value of stock options issued during the year ended July 31, 2003 was determined using the Black-Scholes options pricing model using the following weighted average assumptions, resulting in a fair value of $4.73 per option: annualized volatility of 45%, risk free interest rate of 4%, expected life of 5 years and a dividend yield of 0%.

(c) Employee Share Ownership Plan

Under the terms of the Corporation's Employee Share Ownership Plan, each year employees can choose to have up to 5% of their annual gross earnings, to a maximum of $10,000, withheld to purchase publicly-traded common shares of the Corporation. The Corporation will match 20% of all contributions made by employees, which vest immediately. The Corporation's contribution is recorded as compensation expense. Under the plan, employees acquired 8,728 shares in 2003 (2002 – 16,160).

(d) Warrants

At July 31, 2003, there are 2.65 million warrants outstanding for the purchase of common shares with an exercise price of $2.32 per common share and an expiry date of November 5, 2003 (*note 15*). During the year ended July 31, 2002, 2.65 million warrants expired.

(e) Reverse share split

On June 27, 2000, the Corporation received shareholder approval to consolidate its outstanding common shares on a three-to-one basis. The Corporation has not yet determined a date for the consolidation.

12. CUMULATIVE TRANSLATION ADJUSTMENT

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Corporation's self-sustaining foreign operation and the related foreign currency debt designated as a hedge of the net investment in Chesapeake, resulted in an unrealized currency translation loss during the year ended July 31, 2003 of $3.9 million (2002 – $0.2 million). The unrealized loss resulted from the strengthening of the Canadian dollar against the U.S. dollar.

13. EARNINGS PER SHARE

The following is a reconciliation between basic and diluted earnings per share:

in thousands of Cdn dollars except share-related data		2003		2002
Net income	$	40,090	$	10,434
Weighted-average number of common shares outstanding	#	60,186,293	#	59,580,372
Dilutive effect of:				
Warrants		2,085,445		2,393,024
Stock options		2,172,689		2,113,060
Diluted weighted-average number of shares outstanding	#	64,444,427	#	64,086,456
Earnings per share:				
Basic	$	0.67	$	0.18
Diluted	$	0.62	$	0.16

For the years ended July 31, 2003 and 2002, no options were excluded from the calculation of diluted earnings per share. When the exercise price of options exceeds the average market price of the Corporation's common shares for the year, options are excluded from the calculation.

14. APOTEX RESEARCH AND DEVELOPMENT AGREEMENT

The Corporation has an agreement with Apotex Inc. to support the development of certain biopharmaceutical products through to initial regulatory filing. To July 31, 2003, the Corporation has received $69.7 million (2002 – $59.6 million). Research revenue received pursuant to this contract is based on the direct research costs plus a contribution to overhead. Under this agreement, Apotex Inc. will be entitled to receive a 12% royalty on net sales of certain biopharmaceutical products developed by the Corporation and a right to distribute the products. Apotex Inc. and the Corporation will share profits equally after deducting royalty payments. No sales of biopharmaceutical products developed pursuant to this agreement have been made to July 31, 2003.

15. DEFERIPRONE AGREEMENT

On November 5, 1996, the Corporation acquired the rights to a new drug, deferiprone, from Apotex Research Inc., a company under common control, in exchange for warrants to purchase 5.3 million common shares of the Corporation of which 2.65 million expired during the year ended July 31, 2002 *(note 11(d))*. The Corporation receives 50% of any net profits from sales of the drug worldwide. During the year ended July 31, 2003, the Corporation earned revenue of $3.4 million (2002 – $2.6 million), representing its share of the net profits from the worldwide sales of deferiprone. The revenue is included in Other income.

16. GOVERNMENT ASSISTANCE

In addition to the non-interest-bearing government loans *(note 9)*, the Corporation has received a nominal amount of assistance from government agencies and these amounts have been included in the determination of income as a reduction in research expenses. Federal and provincial investment tax credits, relating to scientific research activities and amounting to $6.3 million (2002 – $5.5 million), were similarly included in the determination of income. In addition, investment tax credits relating to capital expenditures amounting to $1.4 million (2002 – $0.6 million) were accounted for as a reduction of the cost of the applicable assets.

17. SUPPLEMENTARY INFORMATION FOR CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Net decrease (increase) in non-cash working capital balances related to operations:

in thousands of Cdn dollars	2003	2002
Accounts receivable	$ (13,207)	$ 297
Inventories	1,620	(8,590)
Prepaid expenses and deposits	(791)	36
Income and other taxes payable	686	—
Accounts payable and accrued liabilities	4,580	3,462
	$ (7,112)	$ (4,795)

(b) Net investment tax credits utilized (earned) associated with research activities are as follows:

in thousands of Cdn dollars	2003	2002
Research expenses reduced by investment tax credits earned	$ (6,285)	$ (5,479)
Income tax expense not requiring a current cash payment due to the utilization of investment tax credits	11,990	7,401
	$ 5,705	$ 1,922

(c) Cash paid for interest and income taxes:

During the year ended July 31, 2003, the Corporation paid $2.5 million (2002 – $3.0 million) and $7.1 million (2002 – $0.5 million) for interest and income taxes respectively.

18. SEGMENT INFORMATION

The Corporation manages its business and evaluates performance based on two operating segments: biopharmaceutical operations, and contract R&D and manufacturing. The accounting policies of the Corporation's operating segments are the same as those described in *note 1*. The following presents segment operating results for the years ended July 31, 2003 and July 31, 2002 and identifiable assets as at July 31, 2003 and July 31, 2002:

in thousands of Cdn dollars	2003			2002		
	Biopharmaceutical operations	Contract R&D and manufacturing	Total	Biopharmaceutical operations	Contract R&D and manufacturing	Total
Revenues	$ 55,982	$126,620	$182,602	$ 50,314	$ 34,962	$ 85,276
Expenses						
Cost of sales	11,815	73,137	84,952	12,307	21,056	33,363
Research	10,925	7,145	18,070	13,157	—	13,157
Selling, general and administrative	2,796	9,619	12,415	4,212	5,052	9,264
Depreciation and amortization	1,857	4,261	6,118	2,283	1,579	3,862
Interest	312	2,190	2,502	271	2,749	3,020
Goodwill impairment loss	—	—	—	—	5,000	5,000
	27,705	96,352	124,057	32,230	35,436	67,666
Income (loss) before the following	28,277	30,268	58,545	18,084	(474)	17,610
Other income	3,301	310	3,611	2,675	363	3,038
Income (loss) before income taxes	31,578	30,578	62,156	20,759	(111)	20,648
Income taxes	11,091	10,975	22,066	8,267	1,947	10,214
Net income (loss) for the year	$ 20,487	$ 19,603	$ 40,090	$ 12,492	$ (2,058)	$ 10,434
Assets	$ 80,503	$107,103	$187,606	$ 68,027	$ 108,496	$ 176,523
Additions to property, plant and equipment, intangible assets, and goodwill	$ 5,594	$ 12,110	$ 17,704	$ 4,696	$ 28,252	$ 32,948

Geographic information about the Corporation's revenue is based on the product shipment destination or the location of the contracting organization. Assets are based on their physical location as at July 31, 2003 and July 31, 2002:

in thousands of Cdn dollars	2003		2002	
	Revenue	Property, plant and equipment, intangible assets, and goodwill	Revenue	Property, plant and equipment, intangible assets, and goodwill
Canada	$ 21,375	$ 47,225	$ 24,344	$ 38,698
United States	152,123	82,424	52,253	95,189
International	9,104	—	8,679	—
	$182,602	$129,649	$ 85,276	$ 133,887

Sales to one customer represent 56% (2002 – 64%) of the revenue of the biopharmaceutical operating segment. Sales to another customer represent 80% (2002 – 4%) of the revenue of the contract R&D and manufacturing segment.

19. COMMITMENTS

(a) Operating leases

At July 31, 2003, the Corporation had commitments under operating leases requiring minimum annual payments as follows:

in thousands of Cdn dollars	
2004	$ 4,045
2005	3,774
2006	2,490
2007	998
2008	375
Thereafter	1,054
	$ 12,736

(b) Royalties

Under an agreement expiring in 2005, the Corporation pays royalties to the New York Blood Center, Inc. based on 3% of sales of WinRho® SDF. During the year, these royalties amounted to $3.5 million (2002 – $1.1 million).

(c) Forward foreign exchange contracts

The Corporation has entered into forward foreign exchange contracts to sell U.S. dollars totalling $17.5 million (2002 – $12.0 million) with maturity dates from August 2003 to April 2004 at exchange rates ranging from 1.3665 to 1.5720. The unrealized gain on these contracts at July 31, 2003 is $1.2 million (2002 – $0.1 million). These gains together with realized gains and other foreign exchange gains and losses are netted against cost of sales in the amount of $4.1 million (2002 – $0.9 million).

20. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the Corporation had revenues of $2.1 million (2002 – $4.8 million) and purchases of $0.4 million (2002 – $0.6 million) with companies under common control. These transactions occurred in the normal course of operations and were recorded at their exchange amount.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Glossary

Antibody A protein made by white blood cells that reacts with a specific foreign protein (antigen) as part of the immune response; autoimmune disorders occur when the body inappropriately makes antibodies against its own tissues or cells. Structure and function define different classes of antibodies. These include: IgG, IgA and IgE.

Antigen See antibody

Bioequivalence/Bioavailability Comparison of a test drug with a reference (approved) drug

CBRN Chemical, biological, radiological or nuclear incidents

FDA United States Food and Drug Administration: a regulatory body

GM-CSF Granulocyte-macrophage colony-stimulating factor: a stimulator of particular white-blood-cell development

HDN Hemolytic disease of the newborn: a serious blood-type incompatibility between a pregnant woman and the fetus

Hodgkin's and non-Hodgkin's lymphoma Two types of lymphoma differentiated by certain cellular characteristics. Lymphoma is cancer of the lymphoid tissue.

Hyperimmune A highly-purified preparation of specific antibodies made from specialty plasma. Generally these are antibodies of the IgG class.

Immunoglobulin or immune globulin Class of proteins that function as antibodies

ITP Immune thrombocytopenic purpura: an autoimmune disorder causing abnormal destruction of blood platelets, potentially leading to severe bleeding

Monoclonal antibody Antibodies made from a single source or clone of cells that recognize only one kind of antigen

Oligonucleotide Short DNA chain that has been synthesized in a laboratory

Plasma The fluid (non-cellular) portion of blood

Platelet Small disk-shaped body in the blood, critical for normal blood-clotting

Recombinant proteins Proteins made from recombinant DNA, often describes proteins made by introducing their genetic information into a selected host cell for commercial production

Rh isoimmunization Antibodies formed in the bloodstream of a woman with an Rh negative blood type against Rh+ fetal blood (see HDN)

SARS Severe acute respiratory syndrome

Stem Cell Transplantation Stem cells are capable of differentiating into any blood cells. Transplantation can be used to re-populate a patient's blood with blood cells following chemotherapy or radiation treatments.

Directors

R. Craig Baxter[3] – Director
Mr. Baxter graduated with a BComm from Concordia University and is a Certified Management Accountant. He has 23 years of business experience, 18 of which have been in the pharmaceutical industry. Mr. Baxter is currently President of Apotex International, Inc. and Executive Vice President of Apotex Inc.

Alex Glasenberg[1] – Chief Financial Officer & Director
Mr. Glasenberg graduated with an MBA from Harvard Business School in 1984. He joined the Apotex Group in 1990 and is currently Vice President – Finance, and Chief Financial Officer of Apotex Pharmaceutical Holdings Inc.

Jack M. Kay[2] – Director
Mr. Kay has more than 30 years' experience in pharmaceutical management and sales, including 21 years with Apotex. He has academic training in business administration from the University of Manitoba and McGill University. Mr. Kay is President and COO of Apotex Inc., and serves on the board of Barr Laboratories, Inc., a NYSE-listed company. He is Past Chair of The Canadian Generic Pharmaceutical Association, Chair of the International Schizophrenia Foundation, and Vice Chair of Humber River Regional Hospital in Toronto.

John Langstaff[3] – President, CEO & Director
Dr. Langstaff graduated from the University of Manitoba with a PhD in Microbiology in 1981. He served as Vice President of Operations and Research at ABI Biotechnology and through its evolution to Rh Pharmaceuticals. Dr. Langstaff became President and CEO when Apotex acquired Rh, a role he continued when Rh amalgamated with Cangene in 1995.

Bernard C. Sherman[2] – Chairman
Dr. Sherman graduated with a PhD from M.I.T. in 1967 and founded Apotex in 1974. Currently Chairman and CEO of Apotex Inc., Dr. Sherman is a major shareholder of Barr Laboratories, Inc. in the United States. He serves on the Board of Governors for Mount Sinai Hospital and the Baycrest Centre for Geriatric Care in Toronto.

Edward Sonshine, Q.C.[1,2,3] – Director
Mr. Sonshine is President and CEO of Riocan Real Estate Investment Trust, a TSX-listed organization. He has held this position since the Trust's inception in 1993. Riocan is the leading retail landlord in Canada, and Canada's largest Real Estate Investment Trust.

Michael Spino – Director
Dr. Spino completed his Post-Doctoral Research Fellowship at the Toronto Western Hospital in 1974. He subsequently worked as a Professor in the Faculties of Pharmacy and Medicine at the University of Toronto, and as a Senior Scientist at the Research Institute, Hospital for Sick Children in Toronto. Dr. Spino joined Apotex Inc. in 1991 where he is Senior Vice President – Scientific Affairs.

Jerry Treppel[1,3] – Director
Mr. Treppel is General Partner and fund manager at Wheaton Healthcare Partners in the United States. He was Managing Director of Equity Research at Banc of America Securities, LLC from June 1999 until 2002. From 1995 until 1999 he was Managing Director of Equity Research at UBS Warburg. He is also on the Board of Able Laboratories, Inc., a Nasdaq®-listed company.

Officers

William Labossiere Bees – Vice President, Operations

Wendy Johnson – Vice President, Research & Development

John McMillan – Corporate Secretary & General Manager

Andrew Storey – Vice President, Quality Assurance/Clinical & Regulatory Affairs

1 Audit Committee 2 Nominating Committee 3 Compensation and Governance Committee

Corporate Information

Annual Meeting of Shareholders
Wednesday, January 14, 2004 at 4:15 pm
The Toronto Stock Exchange Broadcast & Conference Centre
The Exchange Tower
130 King Street West,
Toronto, Ontario M5X 1J2

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Computershare Trust Company of Canada
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Toronto, Ontario M5J 2Y1

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www.cangene.com

Chesapeake Website
www.cblinc.com

Fiscal Year-End
July 31st

Trading Symbol
CNJ (Toronto Stock Exchange)

52-Week Trading Range
C$9.02–$13.00 (at July 31, 2003)

Average Daily Trading Volume
20,067 (fiscal 2003)

Shareholder Inquiries
For further information about Cangene and its activities, please contact Ms. Jean Compton, Manager of Investor Relations at Cangene in Mississauga, (905) 405-2900, or by e-mail at jcompton@interlog.com

Quarterly Financial Results

in thousands of Cdn dollars except per-share data	Quarter ended October 31, 2002	Quarter ended January 31, 2003	Quarter ended April 30, 2003	Quarter ended July 31, 2003
Total revenue	$ 28,253	$ 48,599	$ 61,524	$ 47,837
Net income	5,482	9,567	13,816	11,225
Earnings per share, basic	0.09	0.16	0.23	0.19
Earnings per share, diluted	0.08	0.15	0.22	0.17

Quarterly Stock Market Information

for years ended July 31	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2003	2002	2003	2002	2003	2002	2003	2002
High*	$ 11.95	$ 7.50	$ 11.00	$ 10.35	$ 11.20	$ 11.00	$ 13.00	$ 11.35
Low*	$ 9.50	$ 5.30	$ 9.02	$ 7.00	$ 9.75	$ 8.85	$ 10.30	$ 7.50
Close*	$ 10.85	$ 7.25	$ 11.00	$ 9.45	$ 10.31	$ 10.99	$ 12.40	$ 10.15
Volume	2,076,591	608,304	975,054	1,018,586	731,892	1,385,887	1,353,581	906,526

*Highs and lows based on board lot trades on the TSX; closing price based on last business day of the quarter

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